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Cutting Hiring Costs - Compensation

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Deciding what to pay

Deciding what to pay is more of an art than a science. Here are some questions to ask:

What are other companies paying for the same work? Check out [Labour market in other cities](#). If you can't find the information this way, have a look at ads from other companies or call other companies in town and ask.

What do I want my company to pay compared to other companies in my industry? If your strategy is to have very low costs compared to your competitors, you may want to pay relatively low salaries or offer bonuses to employees who reduce costs. You may pay above the industry average if you want to attract more candidates. Don't forget that there is a hidden cost to low salaries: higher turnover and recruitment costs. On the other hand, high salaries do not guarantee better workers.

If you don't find local information, don't forget to factor in exchange rates and cost of living differences between locations. If you don't find the information on the Internet, call your local industry association to find out what salary surveys they have available.

What can our company afford? Salaries are an expense your company has to meet month after month. The benefits of a stable, well-trained, and knowledgeable work force have to be weighed against the costs of this work force. If you can't afford full-time, permanent staff, think about part-time, contracting out, or training someone with less experience.

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Pay Systems

Am I going to pay a [regular salary](#), a [salary plus commission or bonus](#), an [hourly wage](#) or a [variable wage](#)?

Hourly Pay

Hourly pay is usually paid to employees:

- if they don't have regular hours;
- if they are support staff or casual employees;
- if they work at a trade; or
- often if their jobs are covered by a union agreement.

Hourly pay makes it easier for employers to calculate wages for jobs that don't have regular hours. However, computer bookkeeping systems make this much less difficult for the employer than in the past. Hourly pay still makes it easier for workers to calculate their wages, overtime, and benefits.

Note that Labour Standards require employers with ten or more employees to provide prorated benefits to workers who have been employed 26 consecutive weeks; have worked 390 hours in those 26 weeks, and work 780 hours in a calendar year, even if they are not full-time. Paying employees on an hourly basis does not change this.

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Salary Pay

Salary pay (quoted either on a monthly or yearly basis) is used for employees in jobs with regular hours, where overtime does not normally need to be calculated or in professional and management jobs.

The advantage of paying on a salary basis is that salaries and benefits can be set up on a payroll system, without having to make any additional calculations from pay period to pay period.

Labour standards do not require employers to pay overtime to professional and management employees or to some types of employment, including ambulance attendants, fire fighters, oil truck drivers, and newspaper workers. Some employers do, however, choose to pay professionals and sometimes managers for overtime.

Paying someone on a salary basis does not automatically make the employee a "professional".

Support staff and entry level staff would still be paid overtime.

Labour Standards can be contacted for assistance in determining whether overtime pay is required or to find out how to get information on overtime regulations.

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Salary Plus Commissions

Offering a salary means that employees can count on some income during slow periods and while they are learning the job. Having part of the pay as commission motivates employees to achieve higher levels of sales and reduces the company's pay expenses when sales are lower.

Employers in some industries pay sales staff on a commissions-only basis.

Commissions-only reduce the employer's payroll expenses when sales are low. They also provide employees with the incentive to increase sales. The disadvantage of paying commissions-only is that excellent applicants may avoid the job because of the financial uncertainty involved. (Mortgage payments don't go down when your company has a bad month!)

Full-time commission staff can receive a regular advance on commissions to provide them with an income they can count on each month. The actual commission is calculated and adjusted on a regular basis as actual sales are invoiced. The employer has to calculate what level of sales the company can be reasonably sure the staff will reach to set the advance.

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Variable Pay

Variable pay is a new option, similar to salary plus commission, used for all kinds of jobs -- not just sales jobs. The employee receives a base salary or hourly wage -- and then a bonus based on achieving productivity or quality targets.

In a manufacturing job, a typical variable pay target would be based on the number of parts produced without any defect. In a banking job, a typical target would be based on how few bad loans had to be written off. The bonus may also include a component related to how the company or work unit is doing as a whole.

Offering a predictable bonus based on productivity is a strong motivator. As well as providing a financial incentive to do good work, the targets help the employee understand how he or she is connected to company results.

Successful variable pay systems generally pay more than the industry average in good years and less in bad years, which means you have higher pay expenses when you are best able to afford them.

Many companies find that their results are better under this pay system. Of course, the company does need to be careful that their targets will truly produce better results. Targets also need to be set that are challenging and achievable.